

THE ROLE OF AUDIT COMMITTEE IN MODERATING THE EFFECT OF PSAK 109 (FINANCIAL INSTRUMENT) ON EARNINGS MANAGEMENT IN INDONESIAN BANKS

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Abstract

This study examines the effect of PSAK 109 implementation on earnings management and investigates the moderating role of the audit committee. The study employs a quantitative approach using secondary data from annual reports of banking companies listed on the Indonesia Stock Exchange. The sample comprises 40 banks with 240 observations during the pre-implementation period (2017–2019) and post-implementation period (2022–2024), excluding 2020–2021 due to the impact of the COVID-19 pandemic. Earnings management is proxied by Discretionary Loan Loss Provisions (DLLP), while hypothesis testing is conducted using panel data regression and Moderated Regression Analysis (MRA). The findings reveal that PSAK 109 implementation significantly reduces earnings management practices. In addition, the audit committee significantly moderates the relationship between PSAK 109 and earnings management. These findings highlight the importance of accounting standards and effective governance mechanisms in enhancing the quality of financial reporting in the banking sector.

Keywords: PSAK 109; Earnings Management; Audit Committee; Expected Credit Loss; Banking

1. INTRODUCTION

Financial statements serve as a primary medium through which companies communicate information regarding their financial position and performance to stakeholders. Among the various components contained in financial statements, earnings information receives the greatest attention because it is frequently used as an indicator of managerial performance and a basis for investment and lending decisions (AR et al., 2025). However, reported earnings do not always fully reflect a company's actual economic condition because accounting standards allow management to exercise professional judgment in determining accounting estimates and recognition policies. This flexibility creates opportunities for earnings management, namely managerial actions aimed at influencing reported earnings through the use of accounting discretion (Healy & Wahlen, 1999).

From the perspective of agency theory, earnings management arises from conflicts of interest between management as agents and shareholders as principals. Information asymmetry allows managers to possess information that is not fully accessible to shareholders, thereby creating incentives to manipulate financial reporting in order to achieve compensation targets, maintain reputation, or influence stakeholders' perceptions regarding company performance (Jensen & Meckling, 1976; Ronen & Yaari, 2008). Such practices are particularly relevant in the banking industry, where earnings management is commonly conducted through the formation of Allowance for Impairment Losses (CKPN). Because CKPN is based on management estimates, changes in provisioning policies directly affect reported earnings and may therefore be utilized as an instrument of earnings management (Biswas et al., 2024).

In Indonesia, the accounting treatment of CKPN is regulated through PSAK 109 on Financial Instruments, which represents the adoption of IFRS 9 and became effective on 1 January 2020, replacing PSAK 55. PSAK 109 is referred to in this study using the updated Indonesian PSAK numbering system and was previously known as PSAK 71. Unlike the incurred loss approach under PSAK 55, PSAK 109 requires banks to estimate expected credit losses using a forward-looking approach that incorporates Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD) in measuring credit risk (Rizky et al., 2022). The implementation of PSAK 109 is expected to improve the quality of financial reporting by enhancing transparency and requiring earlier recognition of potential credit losses. Nevertheless, the expected credit loss model also relies on managerial assumptions regarding future economic conditions, such as economic growth, inflation, and unemployment rates, thereby creating a degree of discretion that may still be exploited for earnings management purposes (Norouzpour et al., 2025).

The issue becomes increasingly relevant within the Indonesian banking sector. The initial implementation of PSAK 109 coincided with the COVID-19 pandemic, a period characterized by substantial economic uncertainty. During this period, Indonesia experienced a significant economic contraction and a deterioration in banking credit quality, as reflected by the increase in the non-performing loan (NPL) ratio from 2.53% in 2019 to 3.06% in 2020 (BPS, 2020; OJK, 2021). Although banking conditions gradually improved in subsequent years, banks continued to maintain relatively high CKPN coverage ratios as part of prudent risk management practices (Haq, 2023). Such conditions indicate that loan loss provisioning remains an important area of managerial judgment and therefore continues to present opportunities for earnings management.

Prior empirical studies have produced inconsistent findings regarding the impact of IFRS 9 and PSAK 109 on earnings management. Nnadi et al. (2023) documented evidence that banks continued to engage in earnings management through loan loss provisioning following IFRS 9 adoption. Similarly, Nurcahyono & Harto (2025) found that the implementation of IFRS 9 increased earnings management practices during the early

adoption period. In contrast, Proença et al. (2024) reported that IFRS 9 reduced earnings management by increasing reporting transparency and limiting managerial discretion. Furthermore, Resende et al. (2024) found that the expected credit loss model encourages more conservative provisioning behavior. These inconsistent findings suggest that the effect of PSAK 109 on earnings management may depend on other factors beyond accounting standards themselves.

One factor that may influence the effectiveness of PSAK 109 is corporate governance. Within the framework of Good Corporate Governance (GCG), the audit committee plays an important role in overseeing financial reporting processes, ensuring compliance with accounting standards, and monitoring management decisions related to accounting estimates (Handajani et al., 2024; Bawuah, 2024). Through effective oversight, audit committees are expected to reduce opportunistic managerial behavior and strengthen the implementation of accounting standards. However, prior studies have also reported inconsistent findings regarding the role of audit committees. Rahayu et al. (2024) found that audit committees significantly reduce earnings management practices, whereas Alqudah (2026) reported that only certain audit committee characteristics significantly influence earnings management. Meanwhile, Ali (2024) documented that audit committee characteristics consistently affect earnings management behavior.

These inconsistencies indicate two important research gaps. First, empirical evidence regarding the effect of PSAK 109 on earnings management in the Indonesian banking sector remains limited and inconclusive. Second, studies examining the audit committee as a moderating variable in the relationship between PSAK 109 and earnings management are still relatively scarce. In addition, many previous studies focused on the initial implementation period of IFRS 9 and PSAK 109, which coincided with the COVID-19 pandemic and may have distorted the observed relationship between accounting standards and earnings management.

Therefore, this study contributes to the literature by integrating PSAK 109 implementation and audit committee effectiveness within a single analytical framework. Using banking companies listed on the Indonesia Stock Exchange during 2017–2019 and 2022–2024, while excluding the pandemic period of 2020–2021, this study aims to provide a clearer assessment of the relationship between PSAK 109 and earnings management under relatively stable economic conditions. Specifically, this study examines the effect of PSAK 109 implementation on earnings management and investigates whether the audit committee moderates this relationship.

Based on the theoretical framework and previous empirical studies, the hypotheses of this study are formulated as follows:

H1: Implementation of PSAK 109 has an impact on earnings management practices

H2: The audit committee has an influence in moderating the relationship between PSAK 109 and earnings management.

2. RESEARCH METHOD

This study employed a quantitative approach to examine the effect of PSAK 109 implementation on earnings management and the moderating role of the audit committee. The study utilized secondary data obtained from the annual reports of banking companies listed on the Indonesia Stock Exchange (IDX). The observation period consisted of 2017–2019 as the pre-implementation period and 2022–2024 as the post-implementation period of PSAK 109, while the years 2020–2021 were excluded to avoid potential distortions caused by the COVID-19 pandemic. The population comprised all banking companies listed on the IDX during the 2017–2024 period. Samples were selected using a purposive sampling method based on predetermined criteria. The sample selection process is presented in Table 1.

Table 1. Sample Selection Criteria

Kriteria	Jumlah
Perusahaan subsector perbankan yang tercatat di Bursa Efek Indonesia per januari 2025	48
Perusahaan yang baru terdaftar di Bursa Efek Indonesia setelah 1 januari 2017	(4)
Perusahaan bebas prinsip syariah (tidak relevan dengan ruang lingkup PSAK 109)	(4)
Jumlah perusahaan yang memenuhi kriteria dan dapat dijadikan sampel	40
Periode tahun pengamatan	6
Total observasi keseluruhan	240
Author's compilation (2026)	

This study employed earnings management as the dependent variable, PSAK 109 implementation as the independent variable, and the audit committee as the moderating variable. Earnings management was measured using Discretionary Loan Loss Provisions (DLLP) following Proença et al. (2024). PSAK 109 implementation was measured using a dummy variable, whereas audit committee effectiveness was measured using an index adapted from Rahayu et al. (2024). The operational definitions of the variables are presented in Table 2

Table 2. Variabel Measurment

Variabel	Measurment
Earnings Management	Measured using Discretionary Loan Loss Provisions (DLLP) based on Proença et al. (2024).
$\frac{LLP_{it}}{TL_{i,t-1}} = \alpha_0 + \alpha_1 \frac{NPL_{it}}{TL_{i,t-1}} + \alpha_2 \frac{\Delta NPL_{it}}{TL_{i,t-1}} + \alpha_3 \frac{\Delta TL_{it}}{TL_{i,t-1}} + \varepsilon_{it}$	
PSAK 109	Dummy variable: 1 = post-implementation period (2022–2024); 0 = pre-implementation period (2017–2019).
Komite Audit	Audit committee effectiveness was measured using an index adapted from Rahayu et al. (2024). Members with an educational background in accounting, finance, or auditing received a score of 1, while others received 0. Members holding at least a master's degree received a score of 1, otherwise 0. Members with professional experience in auditing or finance received a score of 1, otherwise 0. Meeting frequency was scored from 1 to 4 based on the number of meetings held annually. The total score was divided by four to obtain an audit committee effectiveness index.

Source: Author's compilation (2026)

3. RESULTS AND DISCUSSION

3.1 Results

3.1.1 Analisis Statistik Deskriptif

Descriptive statistics were employed to summarize the characteristics of the research data through measures of central tendency, dispersion, and extreme values.

Table 3. Descriptive Statistic

	DLLP	PSAK 109	Komite Audit
<i>Mean</i>	-2.28E-08	0.500000	1.441667
<i>Median</i>	0.008007	0.500000	1.500000
<i>Maximum</i>	0.040528	1.000000	1.750000
<i>Minimum</i>	-0.241797	0.000000	0.750000
<i>Std.Dev</i>	0.032228	0.501045	0.280528
<i>Observations</i>	240	240	240

Source: Data processed using EViews 13 (2026)

Table 3 shows that DLLP has a mean value close to zero (-2.28E-08), which is consistent with the nature of residual-based variables in regression models. The standard deviation of 0.032228 indicates meaningful variation in managerial discretion among the sampled banks. PSAK 109 has a mean of 0.500000, reflecting an equal number of observations in the pre- and post-implementation periods. The audit committee variable records a mean of 1.441667, suggesting that most sampled banks exhibit a relatively high level of audit committee effectiveness, while the standard deviation of 0.280528 indicates relatively low variation across firms.

3.1.2 Panel Data Model Selection

Pemilihan model data panel yang tepat dilakukan dengan menggunakan uji Chow dan uji Hausman.

Table 4. Panel Data Model Selection Results

	Statistic	Prob.
Chow Test	4.316194	0.0000
Hausman Test	7192.408	1.0000

Source: Data processed using EViews 13 (2026)

To identify the most appropriate panel data model, the Chow and Hausman tests were performed. The Chow test yielded a p-value of 0.0000, indicating that the Fixed Effect Model (FEM) is preferred over the Common Effect Model (CEM). However, the Hausman test produced a p-value of 1.0000, implying that the Random Effect Model (REM) is more suitable than the FEM. Accordingly, the REM was selected as the final estimation model, suggesting that individual effects are random and uncorrelated with the explanatory variables.

3.1.3 Normality Test

The normality test was conducted to determine whether the residuals of the regression model were normally distributed. In this study, normality was assessed using the Jarque–Bera test. A p-value greater than 0.05 indicates that the residuals are normally distributed, whereas a p-value below 0.05 indicates a departure from normality.

Table 5. Normality Test Results

Statistic	Jarque-Bera	Probability
Value	7192.408	0.0000

Source: Data processed using EViews 13 (2026)

As reported in table 5, the Jarque–Bera test produced a p-value of 0.0000, indicating that the residuals are not normally distributed. Nevertheless, this limitation is unlikely to materially affect the reliability of the regression estimates because the study employs a relatively large sample of 240 observations. In line with the Central Limit Theorem,

statistical inference based on large samples remains generally robust despite departures from normality.

3.1.4 Multicollinearity Test

The multicollinearity test was conducted to determine whether a strong linear relationship existed among the independent variables in the regression model. Multicollinearity is considered absent when the correlation coefficients among the independent variables are below the threshold of 0.90.

Table 6. Multicollinearity Test Results

	X	Z
X	1.000000	0.260470
Z	0.260407	1.000000

Source: Data processed using EViews 13 (2026)

Table 6 shows that the correlation coefficient between PSAK 109 (X) and the audit committee (Z) is 0.260470, which is well below the threshold of 0.90. Therefore, no serious multicollinearity problem is detected, indicating that the independent variables can be included in the regression model simultaneously.

3.1.5 t-Test

The t-test was conducted to examine the individual effect of the independent variable on the dependent variable. A significance level of 5% was used as the decision criterion, where a p-value of less than or equal to 0.05 indicates a statistically significant effect.

Table 7. t-Test Results

Variabel	Coefficient	Std.Error	t-Statistic	Prob.
C	-0.0117987	0.012343	-1.457240	0.1464
X	-0.006925	0.003515	-1.970298	0.0500
Z	0.014878	0.118582	1.733667	0.0843

Source: Data processed using EViews 13 (2026)

As shown in table 7, the PSAK 109 variable (X) produced a negative coefficient of -0.006925, with a t-statistic of -1.970298 and a p-value of 0.0500. Since the p-value meets the 5% significance threshold ($p \leq 0.05$), PSAK 109 is considered to have a significant effect on earnings management. Therefore, the first hypothesis, which proposes that the implementation of PSAK 109 affects earnings management, is supported.

3.1.6 Coefficient of Determination Test

The coefficient of determination test was conducted to assess the proportion of variation in the dependent variable that can be explained by the independent variables included in the model. The value of R^2 ranges from 0 to 1, with values closer to 1 indicating a greater explanatory power of the independent variables.

Table 8. Coefficient of Determination Results

R-squared	0.021007
Adjusted R-squared	0.012745

Source: Data processed using EViews 13 (2026)

As presented in table 8, the adjusted R^2 value is 0.012745, or 1.2745%. This result indicates that PSAK 109 and the audit committee jointly explain only 1.2745% of the variation in earnings management. The remaining 98.7255% is attributable to other factors outside the scope of the model.

3.1.7 Moderated Regression Analysis

Moderated Regression Analysis (MRA) was employed to examine whether the audit committee (Z) moderates the relationship between PSAK 109 (X) and earnings management (Y). The moderating effect was tested by incorporating the interaction term (XZ) into the regression model specification.

Table 9. Moderated Regression Analysis Results

Variabel	Coefficient	Std.Error	t-Statistic	Prob.
C	0.000390	0.015369	0.025363	0.9798
X	-0.042484	0.018389	-2.310356	0.0217
Z	0.001452	0.010875	0.133548	0.8939
X*Z	0.024770	0.012566	1.971294	0.0499

Source: Data processed using EViews 13 (2026)

Based on the estimation results presented in table 9, the regression equation after incorporating the moderating variable can be expressed as follows:

$$Y = 0.000390 - 0.042484X + 0.001452Z + 0.024770(X \times Z)$$

Based on the regression equation, the MRA results can be interpreted as follows:

1. The audit committee variable (Z) produced a positive coefficient of 0.001452, with a t-statistic of 0.133548 and a probability value of 0.8939. Since the probability value

exceeds the 0.05 significance level, the audit committee does not have a statistically significant direct effect on earnings management within this model.

2. The interaction variable between PSAK 109 and the audit committee (XZ) produced a positive coefficient of 0.024770, with a t-statistic of 1.971294 and a probability value of 0.0499. Since the probability value is below the 0.05 significance level, the interaction term is statistically significant. Therefore, the second hypothesis, which proposes that the audit committee moderates the relationship between PSAK 109 and earnings management, is supported.

3.1.8 Marginal Effect Test

To further interpret the moderating effect, a simple slope analysis was conducted at low (mean – 1 SD), average (mean), and high (mean + 1 SD) levels of audit committee effectiveness (Z). The slope of PSAK 109 (X) at each level of Z was calculated using the formula $\beta_1 + \beta_3 Z$, where β_1 and β_3 represent the coefficients of X and the interaction term XZ obtained from Table 9.

Table 10. Marginal Effect Result

Audit Committee Level	Z Value	Slope of PSAK 109
LOW	1,161139	-0,013723
MEAN	1,441667	-0,006774
HIGH	1,722195	0,000175

Source: Data processed using Excel (2026)

As shown in Table 10, the slope of PSAK 109 is negative and relatively large at the low level of audit committee effectiveness (–0.013723), indicating that PSAK 109 substantially reduces earnings management when audit committee oversight is weak. At the average level, the slope remains negative but smaller in magnitude (–0.006774), consistent with the overall regression result reported in Table 7. At the high level of audit committee effectiveness, the slope approaches zero (0.000175), indicating that the earnings management-reducing effect of PSAK 109 becomes negligible once the audit committee is highly effective. This consistent pattern, in which the negative effect of PSAK 109 weakens as audit committee effectiveness increases, confirms the moderating role identified in the MRA results (Table 9) and further supports the second hypothesis (H2).

3.2 Discussion

3.2.1 The Effect of PSAK 109 on Earnings Management

The empirical results confirm that the implementation of PSAK 109 has a significant negative effect on earnings management practices. This finding is consistent with agency theory, which suggests that information asymmetry between management as agents and shareholders as principals creates opportunities for conflicts of interest. When accounting

standards impose stricter estimation requirements, managerial discretion becomes more limited, thereby reducing opportunistic behavior.

From a technical perspective, PSAK 109 requires banks to estimate Allowance for Impairment Losses (CKPN) using the expected credit loss approach, which incorporates three key components: Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). Under this framework, changes in loan loss provisions must be supported by relevant and documented risk parameters, limiting management's ability to adjust provisions for earnings management purposes. Consequently, the discretionary component of loan loss provisions (DLLP) tends to decline following the implementation of PSAK 109.

These findings are consistent with Proença et al. (2024), who documented that the adoption of IFRS 9 reduced earnings management in Eurozone banks by enhancing reporting transparency and constraining managerial discretion. However, the results differ from those of Nurcahyono & Harto (2025), who found that IFRS 9 increased earnings management practices. This discrepancy may be explained by differences in the observation period. Their study covered the early stage of IFRS 9 implementation during the COVID-19 pandemic, when banks were still adapting to the expected credit loss model, potentially creating greater opportunities for managerial discretion. In contrast, the present study focuses on a more stable period (2022–2024), when PSAK 109 had been implemented for a longer period, allowing its role in limiting earnings management to be observed more clearly.

3.2.2 The Moderating Role of the Audit Committee.

The MRA results indicate that the audit committee significantly moderates the relationship between PSAK 109 and earnings management, as reflected by the positive and statistically significant interaction coefficient ($\beta = 0.024770$; $p = 0.0499$). Therefore, the second hypothesis (H2) is accepted. However, the audit committee variable itself does not have a significant direct effect on earnings management ($\beta = 0.001452$; $p = 0.8939$). This finding suggests that audit committee effectiveness does not independently influence earnings management practices but becomes relevant when interacting with PSAK 109. Such a pattern is consistent with the characteristics of a pure moderator, where the moderating variable does not directly affect the dependent variable but significantly alters the relationship between the independent and dependent variables (Rahadi & Farid, 2021).

Further evidence is provided by the marginal effect analysis presented in Table 10. The slope of PSAK 109 changes from -0.013723 at a low level of audit committee effectiveness to -0.006774 at the average level and approaches zero (0.000175) at a high level of audit committee effectiveness. These results indicate that the negative effect of PSAK 109 on earnings management becomes progressively weaker as audit committee effectiveness increases. In other words, the effectiveness of the audit committee significantly changes the relationship between PSAK 109 and earnings management, thereby confirming its moderating role.

The weakening pattern shown in Table 10 indicates that audit committee effectiveness influences how PSAK 109 relates to earnings management: as audit committee effectiveness increases, the effect of PSAK 109 in reducing earnings management becomes smaller. This suggests that a more effective audit committee encourages management to apply PSAK 109 more carefully and conservatively in recognizing expected credit losses, so that this weakening effect does not reflect increased opportunistic behavior, but rather the application of a higher-quality accounting standard.

This pattern also explains why the audit committee functions as a pure moderator. The non-significant direct effect of the audit committee on earnings management indicates that its presence alone does not automatically guarantee effective oversight, as this depends on the ability of its members to address conflicts of interest between management and shareholders (Alqudah, 2026). Its role only becomes significant once PSAK 109 is implemented, as the standard introduces greater transparency along with an expected credit loss model based on concrete parameters such as Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD), parameters that provide the audit committee with a technical basis to evaluate the reasonableness of management's estimates, something that is not available when the audit committee stands alone as an independent variable.

These findings are consistent with agency theory, which suggests that the audit committee functions as a governance mechanism that reduces information asymmetry by overseeing the financial reporting process and evaluating management judgments. The results also support the findings of Ali (2024) and Alqudah (2026), who documented a significant role of audit committee characteristics in influencing earnings management behavior. However, the results differ from those reported by Bawuah (2024) and Rahayu et al. (2024), who found that audit committees directly reduced earnings management. These differences may be attributable to variations in earnings management proxies, research settings, observation periods, and the measurement of audit committee effectiveness.

4. CONCLUSION

This study examines the effect of PSAK 109 implementation on earnings management and the moderating role of the audit committee in banking companies listed on the Indonesia Stock Exchange during 2017–2024, excluding 2020–2021. The results indicate that PSAK 109 has a significant negative effect on earnings management, suggesting that the expected credit loss approach reduces managerial discretion in determining loan loss provisions and improves the quality of financial reporting. The audit committee significantly moderates the relationship between PSAK 109 and earnings management by encouraging more prudent loan loss provisioning practices. This study is limited by the use of DLLP as the sole proxy for earnings management, the inclusion of only the audit committee as a corporate governance mechanism, and the focus on conventional banking firms listed on the Indonesia

Stock Exchange. Future research is encouraged to employ additional earnings management proxies, incorporate other governance variables, add control variables such as bank size, return on assets, non-performing loans, capital adequacy ratio, loan growth, and GDP growth, and extend the analysis to other financial service sectors, including Islamic banking institutions.

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